

Message Text

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ACTION ARA-10

INFO OCT-01 SS-14 ISO-00 L-02 EB-03 COME-00 TRSE-00 INT-01

NSC-07 NSCE-00 CIAE-00 INR-10 NSAE-00 RSC-01 SSO-00

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 0007

C O N F I D E N T I A L LIMA 3610

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, EMIN, ETRD, PE

SUBJ: SOUTHERN PERU COPPER CORP. (SPCC) NEGOTIATIONS

REF: STATE 092491

1. WISE CALLED ON AMBASSADOR MAY 7 TO INFORM HIM THAT HE HAS BEEN TOLD BY FINANCE MINISTER MARCO DEL PONT THAT AT CABINET MEETING TODAY SPCC'S COMPROMISE PROPOSAL AS OUTLINED LIMA 3468 HAS BEEN APPROVED. WITH FULL GOP APPROVAL NOW HAVING BEEN OBTAINED, WISE SAID NEXT STEP WOULD BE TO PERSUADE FINANCING CONSORTIUM LED BY CHASE MANHATTAN TO ACCEPT PROJECT AS PRESENTLY DEFINED. WISE SAID HE WOULD LEAVE FOR NEW YORK MAY 8 AND THAT HE WAS OPTIMISTIC THAT ALL PIECES WOULD FALL INTO PLACE.

2. WISE SAID HE COULD UNDERSTAND PROBLEMS WHICH COMPROMISE PACKAGE WOULD PRESENT THE BANKERS. IN EVENT OF NATIONALIZATION OF SPCC OR SOME SIMILAR DEVELOPMENT WHICH MIGHT PREVENT LOAN REPAYMENT, ONLY REAL SECURITY THE CONSORTIUM WOULD HAVE WOULD BE COPPER IN TRANSIT BETWEEN ILO AND CUSTOMER. UNDER ORIGINAL PROPOSAL, WHICH CONTEMPLATED EXPORT OF ENTIRE ANNUAL PRODUCTION OF 170,000 SHORT TONS IN BLISTER FORM, TRANSIT PIPELINE WOULD BE ABOUT 90 DAYS, (I.E. CONFIDENTIAL

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ONE-FOURTH OF ANNUAL PRODUCTION OR EQUIVALENT TO APPROXIMATELY

20 PERCENT OF FINANCING). PRESENT PROPOSAL, WHICH CONTEMPLATES REFINING 70,000 TONS IN ILO, WOULD REDUCE PIPELINE FOR THAT PORTION TO ABOUT 30 DAYS AND WOULD MEAN THAT BANKERS COULD ATTACH AN AMOUNT OF COPPER EQUIVALENT TO ONLY ABOUT 15 PERCENT OF FINANCING. THIS DIFFERENCE REPRESENTS ABOUT \$30 MILLION. WISE'S PRESENT TASK IS EITHER TO PERSUADE CONSORTIUM TO ACCEPT REDUCED AMOUNT TO SECURITY OR TO DEVELOP FORMULA ACCEPTABLE TO FOUR OWNERS OF SPCC WHEREBY ADDITIONAL \$30 MILLION WOULD BECOME AVAILABLE TO BANKERS IN EVENT OF NATIONALIZATION OR SOME OTHER COMPARABLE PROBLEM.

3. WISE SAID HE ATTRIBUTED BREAKTHROUGH TO WHAT HE PERCEIVED AS SUDDEN SHIFT ON PART OF GOP LEADERS WHICH HAS IMPLICATIONS EXTENDING FAR BEYOND CUAJONE ISSUE. GOP IS NOW FOR FIRST TIME ACTIVELY URGING SPCC TO COMPLETE ARRANGEMENTS AND SIGN CONTRACTS AS QUICKLY AS POSSIBLE. FINANCE MINISTER TOLD HIM THAT IF MUCH FURTHER DELAY OCCURRED, HE FEARED PROJECT WOULD COLLAPSE AND THAT FINANCING ARRANGEMENTS MUST BE SUFFICIENTLY FIRM THAT THEY CANNOT BE CHANGED BY THE TIME MINISTER OF MINES FERNANDEZ MALDONADO RETURNS TO PERU ON MAY 14. FURTHER, WISE SAID, COMMERCE MINISTER BARANDIARAN AND COAP PRESIDENT GRAHAM, BOTH HERETOFORE OPPOSED TO CUAJONE PROJECT, HAVE NOW EMERGED AS ACTIVE SUPPORTERS. HE ALSO SAID GENERAL MORALES BERMUDEZ, WHO HAD EARLIER TAKEN NO PART, IS ALSO NOW LENDING HIS SUPPORT.

4. WISE SAID THAT GENERAL GRAHAM HAD TOLD HIM "THE POLITICAL AND IDEOLOGICAL POLICY OF GOVERNMENT HAD CHANGED ON SUNDAY," WITH APPARENT REFERENCE TO RESULTS OF A MEETING BETWEEN PRESIDENT VELASCO AND SENIOR MILITARY OFFICERS WHICH HAD TAKEN PLACE MAY 5. WISE ALSO SAID THAT ING. LUIS BRICENO ARATA (VICE PRESIDENT OF MINERO-PERU AND COUSIN OF TRANSPORT MINISTER MENESES) HAS TOLD HIM THAT BEFORE THE END OF YEAR THERE WOULD BE A COMPLETE REALIGNMENT OF THE CABINET, INCLUDING ELEVATION OF MORALES BERMUDEZ TO POSITION OF CONSIDERABLY GREATER IMPORTANCE AND OUSTER OF MINISTERS TANTALEAN, CARPIO BECERRA, AND FERNANDEZ MALDONADO. PRIME MINISTER MERCADO WOULD BE SHUNTED STILL FURTHER TO ONE SIDE.

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WISE PUT THIS TOGETHER WITH RUMOR WHICH HAS BEEN CIRCULATING TO EFFECT THAT PRESIDENT VELASCO WOULD STEP DOWN ON JULY 28 AND SPECULATED THAT THIS MIGHT MEAN MORALES BERMUDEZ WOULD SOON ASSUME THE PRESIDENCY.

5. COMMENT: WISE'S STATEMENTS INDICATE THAT SPCC HOPEFULLY NOW FACES NO FURTHER PROBLEMS ON CUAJONE FINANCING AS FAR AS GOP IS CONCERNED. WE ARE NOT YET IN

A POSITION TO ASSESS HIS COMMENTS INsofar AS THEY RELATE
TO VELASCO AND GOP ITSELF, BUT ARE CHECKING OTHER SOURCES
RE THIS AND RELATED ISSUES. HOWEVER, WISE IS WELL CON-
NECTED, HAVING LIVED MANY YEARS IN PERU, AND WE HAVE NO
REASON TO DOUBT HIS VERACITY INsofar AS THE STATEMENTS
HE ATTRIBUTES TO BRICENO AND GRAHAM ARE CONCERNED.
DEAN

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